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December 11, 1996

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Mr. William Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Federal Communications Commission
Office of Secretary

Ex Parte: Accounting Safeguards Under the Telecommunications Act of 1996
CC Docket No. 96-150

Dear Mr. Caton,

In accordance with Commission Rules, please be advised that today representatives of GTE met with Ms. Kathleen Levitz, Mr. Ken Moran, and Mr. Tim Peterson of the Common Carrier Bureau to discuss the GTE's positions in the proceeding listed above. Attached is a copy of the handout that was provided in the meeting.

If you have any questions regarding this matter, please call me at (202)463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Affairs

cc: Ms. Kathleen Levitz
 Mr. Ken Moran
 Mr. Tim Peterson

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Accounting Safeguards Docket 96-150



December 11, 1996

Proposed Affiliate Transaction Rules for Services

Existing Rules Are Sufficient To Serve The Public Interest - No Need to Change:

- ∇ **Weakened/broken linkage between interstate costs and prices provides no meaningful incentive to abuse affiliate rules**
- ∇ **GTE's use of prevailing price in affiliate transactions has directly benefited ratepayers**
- ∇ **Proposed rules would only serve to needlessly increase administrative costs as markets become increasingly competitive**

**Conclusion: The Commission should forebear from imposing
any new or additional accounting regulations**

Proposed Affiliate Transaction Rules for Services

Prevailing Price Rules Have Important Advantages:

- ∇ **Simpler to administer**
- ∇ **Efficient, available, fair and consistent**
- ∇ **Consistent with the Act**
 - ≡ **Reliance on competitive market forces**

**Conclusion: Prevailing price rules should not be
eliminated**

Proposed Affiliate Transaction Rules for Services

GTE Uses Prevailing Price In Transactions With Two Major Competitive Affiliates

- ∇ **GTE Data Services (GTEDS) increased annual non-affiliate sales \$100M from 1990 to 1995**
- ∇ **GTE Supply increased annual industry sales \$122M from 1990 to 1995**
- ∇ **Both affiliates have obtained major customers**
 - ⊃ **GTEDS - Bell Canada**
 - ⊃ **GTEDS - Mercury Communications**
 - ⊃ **GTE Supply - BellSouth**
- ∇ **Telcos obtain only 55% of data services from GTEDS and 26% of materials from Supply**

Proposed Affiliate Transaction Rules for Services

Arguments to Eliminate Prevailing Price Are Not Compelling:

- ∇ **Reasonable market criteria exists to determine prevailing price**
- ∇ **Transaction cost differences are small**
- ∇ **Affiliates incur additional regulatory-related costs**
- ∇ **Proposed rules would increase these costs**
- ∇ **Any problems associated with the nature of products/small samples would equally be applicable to fair market valuations**

Proposed Affiliate Transaction Rules for Services

**Estimated Fair Market Value (EFMV)
Methodologies Have Significant Drawbacks:**

- ∇ **Expensive to administer**
- ∇ **No value would be added**
- ∇ **Anti-competitive**
- ∇ **Considerably more subjective than prevailing price**

**Conclusion: Comparative pricing of EFMV versus Fully
Distributed Costs should not be adopted**

Proposed Affiliate Transaction Rules for Services

Implementation of the Instant Rulemaking Would Have A Negative Impact on GTE:

- ∇ **GTE relies more heavily on prevailing price affiliate transactions than other LECs**
 - ∃ **GTE ratepayers would not benefit from eliminating prevailing price rules**
- ∇ **Decision to modify prevailing price rules applicable to independents should be made in the context of a separate rulemaking**
 - ∃ **Not in a proceeding designed to implement specific sections of the Act for specific services and companies**